

21 November 1981

MEMORANDUM FOR: National Foreign Intelligence Program Managers

SUBJECT: Preparation of the DCI's Annual Report to the Congress

1. It is time to prepare the Annual Report to the Congress. I have decided that the reports for 1981 will again begin with the DCI's overview of the Community, followed by individual chapters on CIA, DIA, NSA and INR drafted by the respective Program Managers. The reports of the past two years, which followed this format, were well received by the Congress. Moreover, this approach permits us to address cooperatively and individually the progress we have made toward meeting the needs of national policymakers and departmental intelligence consumers.

2. My overview will emphasize the theme of rebuilding. In it I will describe my long term goals for intelligence and outline how 1981 has set the stage for a period of steady growth in the Community's capabilities and resources. I also plan to address intelligence support to the decisionmaking process, interagency counterintelligence cooperation and coordination, management changes that will support the Community's rebuilding, and intelligence objectives for 1982 and beyond.

3. As in previous years, please take the opportunity to discuss the accomplishments of your agency in your portion. The legislation requiring a report on the Intelligence Community is sufficiently broad to permit each of you to address whatever subjects you choose. It is specific only in the request that we review the intelligence activities of foreign countries directed against the US or its interests. Because this is the first annual report each of us is preparing, it provides an excellent opportunity to outline our long-term goals. The following additional topics are offered as suggestions for areas to be covered:

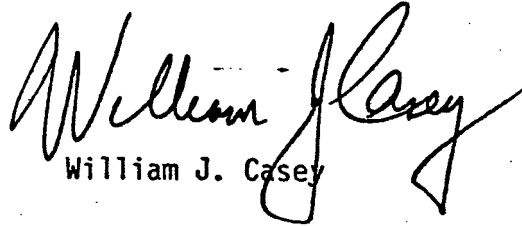
- Performance in 1981, including successes and shortcomings.
- Present and projected resource needs, particularly as they apply to shortcomings.
- Counterintelligence.
- Future research and development plans.

NRO review(s) completed.

4. I would appreciate receiving a draft from you in mid-December, to permit publication by mid-January. I expect the entire report to be some 30 pages long. Therefore, it would be helpful if your contribution does not exceed 10-12 double-spaced pages. In order to facilitate the preparation of this report, please submit the name of your action officer to   of the Intelligence Community Staff.

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William J. Casey

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## REPORT FROM THE DEPUTY DIRECTOR OF CENTRAL INTELLIGENCE

### CIA: 1980 IN RETROSPECT

Crisis support dominated CIA's activities during 1980. We believe that we have served US policymakers well in providing them the intelligence analysis and support they have required to deal with an increasingly complex, competitive international arena riddled with major crises. We are beginning to experience the cost of that support, however, as we see major disruptions in our long-term research programs, reductions in investments in noncrisis areas—areas which could become the scenes of tomorrow's crises—and strains on our general support services where we have curtailed past funding to meet other priority needs.

### PRODUCTION AND POLICY SUPPORT HIGHLIGHTS

Our production effort was heavily oriented toward responding to crisis-generated demands. After providing prior warning of the Soviet intervention in Afghanistan, intelligence reporting and analysis provided the only reliable gauge of the continuing conflict in that country. Analysis of the Iran-Iraq war, including assessments of damage inflicted by both sides and its impact on the world oil market, was well received. The volatile situation in Poland generated heavy demands for analysis that were met successfully. Our prognostications on political developments in Turkey and South Korea, while sometimes controversial, provided an accurate assessment of events surrounding the military takeovers in those two countries. We also provided warning of the refugee exodus from Cuba and some groundbreaking reporting on the continuing turmoil in Central America and the Caribbean. Finally, since the seizure of the hostages in the US Embassy in Iran, reporting on the turbulent and revolutionary developments in that country have been, for the most part, accurate and timely.

As the above crises were unfolding, demands for intelligence support on noncrisis topics did not abate. A cross-section of the major themes of last year's production in these areas include:

- Soviet capabilities for strategic nuclear conflict through the 1980s;
- prospects over the next decade
- the politics of oil;
- the political dimension of arms control questions, such as NATO Theater Nuclear Force Modernization and SALT support;

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- the inflation, growth, and international payment prospects of both major developed countries and the lesser developed countries;
- Soviet intentions and options in Southwest Asia;
- French foreign policy;
- South African defense strategy; and
- prospects for Post-Tito Yugoslavia. ☐

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### Lessons Learned

In mustering our resources to cope with the increasing demands reflected above, we have realized the need for flexibility to react quickly to rapidly changing world events. Imaginative use of task forces and analytic centers has helped us here. A deemphasis where appropriate of the "country-specific" account approach to analysis in favor of the "analytical team" approach has also freed scarce analytical resources to focus their discretionary time on countries and issues that have highest priority. We have also realized that our efforts to be responsive to policymakers' current and/or crisis-related requirements have had an adverse impact on our long-term research programs and coverage of noncrisis areas. To counter these trends, we have taken a variety of steps, including creating a new, interoffice Planning Group on Political Instability to oversee a multi-office research program on political instability in the Third World, establishing interdisciplinary analytical teams to oversee and organize a research program on a select number of high priority policy-relevant issues, and developing special research units within several divisions especially hard hit by current demands. We are also taking steps to improve our ability to analyze and conduct in-depth research on Soviet conventional forces as they become more significant in the balance of power between East and West. As energy research continues to consume a growing share of analytical resources, we will need to integrate energy variables more explicitly into econometric models as well as to expand our inventory of such models. As we move ahead in the above areas, we will also work on enhancing our pro-

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- approving the major recommendations of a National Academy of Public Administration Report for maintaining and increasing the Agency's foreign language capabilities; and
- initiating an Agency-wide, long-range planning process to provide the DCI/DDCI with an informed basis for making long-range decisions and to integrate the various planning activities conducted throughout the Agency. Long-range planning papers and discussions on major foreign policy and management issues highlighted the difficult trade-offs senior managers will be facing in the next decade. ☐

During the past year we also made strides in the five-year program to strengthen our analytical capabilities. A Senior Intelligence Analyst Program was established to enable people to progress to GS-15 and SIS-1 rank on the basis of superior analytic performance, and eight analysts are currently gaining invaluable insight and perspective serving abroad in the Analyst Overseas Program. Reorganization of several production offices streamlined the intelligence production process and strengthened our commitment to interdisciplinary research. We also achieved Intelligence Community agreement on simplified procedures for producing and coordinating Alert Memoranda, which proved useful during the crises in Afghanistan and Poland and the refugee exodus from Cuba. Benchmarks attained in the continuing development of Project SAFE—the computer system that will enable CIA and DIA analysts to read and transfer intelligence traffic electronically, build private analytical files, and ultimately draft, review, and edit intelligence production via remote terminals—included installation of the wideband bus communications system, creation of a test laboratory to determine analyst reactions to SAFE capabilities, and completion of the Systems Requirements and System Design Reviews. ☐

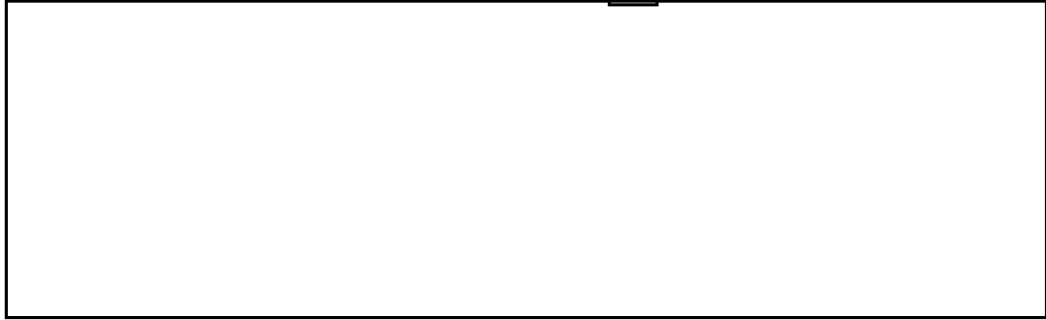
### RESEARCH AND DEVELOPMENT EFFORTS

Two consecutive years of reductions in research and development funding have had an adverse impact on our efforts in this area. During 1980 we had to curtail further development of analytic methodologies in support of intelligence production and reduce research to develop the technologies sorely needed to manufacture future clandestine equipment. Moreover, research efforts that were continued were reduced in scope, extended over longer time frames, and made more costly due to inflation. Eventually, adequate funds

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will have to be restored for developing and applying emerging technologies to intelligence. Otherwise, we cannot remain ahead of foreign counterintelligence measures and services, provide technologies for new collection system equipment, and improve the production process. ☐

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### LEGISLATION

Like the Director, I was very gratified by our increasingly productive and constructive relations with Congress during 1980. Passage of several pieces of major legislation will enable us to do our jobs better while Congress continues its effective oversight process. Modification of the Hughes-Ryan Amendment reduced the number of Committees that have to be informed about our covert action programs while clarifying and strengthening the Congress' essential oversight role. The Classified Information Procedures Act provided procedures to guard against unauthorized disclosure of classified information in the course of criminal prosecutions. Congress also rectified an inequity in Government provisions for death gratuities by authorizing payment of such gratuities to the surviving dependents of Agency officers or employees killed overseas as a result of hostile or terrorist activities or in connection with intelligence activities with substantial elements of risk. Two important legislative goals remain: identities legislation, providing criminal penalties for the unauthorized disclosure of information identifying certain individuals engaged or assisting in our country's intelligence activities; and relief from the resource, operational, and security problems generated by the Freedom of Information Act (FOIA). ☐

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Other significant developments in 1980 in the growing field of intelligence law included the Supreme Court's ruling upholding the validity of the Agency's secrecy agreement (US vs. Snapp). We also had good success in litigating FOIA and Privacy Act cases, and several new principles of law have been established as a result. ☐

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### RELATIONS WITH CONSUMERS

If volume is any measure, the Agency enjoyed healthy, productive relations with consumers during 1980. We provided a wider range of information to a growing number of consumers in both the Executive and Legislative branches of Government. We took a number of administrative steps to ensure that we provided relevant intelligence to interested consumers in a timely fashion. In response to urgings from the senior China-watching community,

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we created a China Policy Support Center to enhance support to policymakers and negotiators dealing with Sino-US exchanges. This Center has generated a quantum jump in our contacts with a wide variety of consumers, including the Department of Commerce and the Federal Aviation Administration. To increase the relevance and responsiveness of intelligence for policymakers concerned with narcotics and terrorism matters, the International Narcotics and Terrorism Analytic Center was established. In the public arena, we believe our selective public information program has generated a marked increase in public appreciation and support for a strong, capable intelligence service whose effectiveness depends on its ability to protect its sources and methods. [ ]

### RESOURCE NEEDS

The steady decline of personnel and of the real purchasing power of Agency budgets throughout the 1970s left us ill-prepared to meet the sharp upturn in covert action and [ ] directed by the President early in 1980. Supplemental funding was provided for these activities, and the Reserve for Contingencies was enlarged through the transfer of some [ ] Nevertheless, funding for all activities remained tight throughout the year because of the plethora of increased demands, many of which have been highlighted throughout this report. Reallocations permitted the highest priority programs to continue and adapt to increased needs, but that process leaves us with some unpaid bills for future years. The long overdue modernization of our worldwide communications system stands out as one example. Another is the critical need for physical space. [ ]

The resource outlook for 1981 is even more stringent. We have obtained a supplement to our original 1981 budget to permit continuation of covert action activities begun in 1980 and to enlarge the Reserve. A substantial number of shortfalls have already been identified, however, including funds for Agency participation in the Continuity of Government program, cover reimbursement costs, [ ]

[ ] We have initiated a request for supplemental funds to cover these needs. Without these funds, many activities will have to be curtailed, and support services will suffer a further decline. [ ]

### PROSPECTS FOR THE FUTURE

As we move into the eighties, we see no letup in recent trends toward an increasingly complex, competitive international system marked by accelerated change. To assist policymakers in anticipating and coping with this change and its implications for US interests, we will need to focus on:

- broader and more in-depth coverage of the Soviet Union as it copes with its own set of difficult problems, including dwindling economic productivity, growing challenges from East Europe, and its pending leadership transition that may involve major power struggles;



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- China, as it continues its military and economic modernization efforts while remaining a major actor in the world political scene;
- changing relationships with our traditional allies, marked by a growing pattern of political and economic competition and our allies' growing stake in their relations with others, including the USSR, China and East Europe;
- the Near and Middle East, where political and economic tensions have the potential to escalate into a major conflagration;
- Cuba's return to a pattern of exporting revolution;
- the likelihood of instability anywhere in the Third World and the ability of those governments to cope with resulting challenges to their authority; and
- the ability of the international economic and political systems to adjust to tightening resource constraints, rapid changes in the structure of industrial and financial markets, and the strains generated by heightened competition for scarce resources. ☐

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The major management problems that will face us in dealing with the above include:

- protecting our analytic resources for long-range research from the pressures for current reporting and crisis monitoring;
- solving the difficulties posed for collection systems by the evolution of foreign mass media communications, information denial techniques, a shortage of available monitoring sites, and advances in encryption;
- providing sufficient incentives to motivate employees to work in the increasingly hostile overseas environment while devising better mechanisms for coping with that environment; and
- making the capital investments necessary to rebuild our infrastructure, including our communications, covert action, and paramilitary capabilities. ☐

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I believe that CIA is capable of successfully meeting the challenges of the 1980s. We are approaching a turning point, however, where we either must have adequate increases in resources to continue meeting growing demands or make some difficult decisions regarding which requirements will not be met. The full collaboration of the Executive Branch and the Congress will be required to make these difficult resource decisions ahead. ☐

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